

Sirius Can't Enforce Arbitration Agreement Against Vehicle Buyer

A satellite radio provider cannot force arbitration of a dispute over unsolicited telephone calls because a buyer of a new vehicle cannot be expected to understand that purchasing a new vehicle would bind him to the radio provider's contract, the Ninth Circuit found.

The case involves a three-month free trial of Sirius XM satellite radio, which was offered to a purchaser of a new Toyota truck. The plaintiff, Erik Knutson, activated the trial subscription and a month later received a "Welcome Kit" from Sirius, which contained a customer agreement requiring arbitration of any dispute with Sirius. Knutson never read the agreement.

About a month after the free trial began, Sirius placed at least three unauthorized telephone calls to plaintiff's cell phone. Knutson filed a class-action suit under the federal Telephone Consumer Protection Act. Sirius moved to compel arbitration as provided in its customer agreement. The district court ordered arbitration.

"When Knutson purchased his vehicle from Toyota, he did not receive any documents from Sirius XM, and he did not know that he was entering into a contractual relationship with Sirius XM by using the service," the appellate court wrote. "Instead, he believed that Sirius XM's trial subscription was a complimentary service 'provided for marketing purposes.'"

Knutson did not agree to the customer agreement "because he did not know that he was entering into a contract with Sirius XM," the appellate court said. "Knutson did not affirmatively enroll in a subscription service with Sirius XM. He did not separately provide his personal information to Sirius XM. He did not indicate that he had read the terms of the Sirius XM Customer Agreement. And he did not pay Sirius XM at any point during the trial subscription period."

The only transaction was between Knutson and Toyota. "[I]t was never clear to Knutson that he was entering into an agreement with Sirius XM—he received no documents about his relationship with Sirius XM at the outset, nor ever understood that his use of the satellite radio service bound him to the terms of the Customer Agreement he would later receive from Sirius XM."

As a result, the district court erred in compelling arbitration.

Erik Knutson v. Sirius XM Radio, Inc., Ninth Cir. No. 12-56120, issued November 10, 2014.